



Press Release

Vandana Ispat Limited

July 22, 2020

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities	40.00	IVR BBB- / Stable Outlook (IVR Triple B Minus with Stable Outlook)	Revised from IVR BBB; Stable (IVR Triple B; Outlook: Stable)
Short Term Bank Facilities	2.48	IVR A3 (IVR A Three)	Revised from IVR A3+ (IVR A Three Plus)
Total	42.48		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Vandana Ispat Limited (VIL) primarily takes into account continuous significant deviation between its projected performance for FY19 and FY20 with actual performance as per FY19(A) and FY20 (Provisional) results along with moderation in revenue in FY20. The rating revision also considers ongoing subdued economic scenarios which may also affect its performance in the near term. However, the ratings continue to derive comfort from its experienced promoters, synergy benefits due to operational linkages among group companies under the Vandana group, locational advantage, comfortable gearing and debt coverage indicators with efficient working capital management. However, these rating strengths continues to remain partially offset by its thin profitability with susceptibility to volatility in the prices of raw materials and finished goods, exposure to high competition, substantial investment in group companies and exposure to cyclical in the steel industry.

Key Rating Sensitivities

Upward rating factor(s) –

- Sustained & significant improvement in revenue & profit margins
- Sustenance of the capital structure while maintaining the debt protection parameters
- Efficient working capital management with improvement in liquidity

Downward rating factor(s) –



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- More than expected dip in operating income and/or decline in profit margins impacting the debt coverage indicators
- Moderation in the capital structure with deterioration in the overall gearing to over 1.5x
- Elongation in the operating cycle impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters**

Mr. Subhash Chand Agarwal, the founder of the Vandana group has vast experience in the steel industry for more than three decades. Vandana Rolling Mills Limited (VRML), the first company under the group was founded in 1984. Mr. Agarwal was engaged in steel trading before he founded the group. The day to day operation of the company is managed by Mr. Subhash Agarwal. They are ably supported by other board members and highly experienced key managerial personnel of the company.

- **Locational advantage**

The manufacturing facility of VIL is strategically located in Urla industrial area, situated close to Raipur (capital of Chhattisgarh). The company can leverage its locational advantage to sell its products across the country.

- **Synergy benefits due to operational linkages among Group companies**

Various companies of Vandana group are engaged in manufacturing of structural steel products, angles channels, blooms etc. Presence of group companies in the same line of business provides synergy to the group companies, both in day-to-day operations as well as financial support. Moreover, the group has established its own network leveraging on the past experience of promoters and related parties.

- **Comfortable gearing and debt coverage indicators**

The financial risk profile of the company continued to remain comfortable marked by its comfortable leverage ratios with no long term debt in the capital structure along with a satisfactory net worth base of Rs.93.26 crore as on March 31,2020 (Prov.). The overall gearing improved from 0.44x as on March 31,2019 to 0.36x as on March 31,2020 on the back of accretion of profit to reserves. Total indebtedness of the company as reflected by the



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TOL/TNW also remained comfortable at 0.45x as on March 31, 2020 (0.51x as on March 31, 2019). The debt protection metrics of the company also continued to remain comfortable with an interest coverage ratio stood at 1.86x in FY20 (1.51x in FY19).

- **Efficient working capital management**

The operating cycle of the comfortable, in the range of 60-80 days during the last three years. The inventory holding period has slightly increased from 57 days in FY19 to 77 days in FY20. The average utilisation of VIL remained moderate at ~89% during the past 12 months ended April 31, 2020.

Key Rating Weaknesses

- **Moderation in revenue during FY2020**

The total income of the company remained erratic over the past two fiscals ending in FY20. After witnessing a growth of ~32% in FY19 on the back of increase in sales realisation and volume sales attributable to high demand, total operating income of the company contracted in FY20 (Prov.) by ~23% due amidst economic slowdown leading to moderation in sales volume. However, despite moderation scale of business the profit levels and margins of the company continued to remained stable in FY20 (Prov.)

- **Thin profitability and volatility in the prices of raw materials and finished goods**

The profitability of the company remained thin with low EBITDA margin and its less than unity PAT margin over the past two fiscals ending in FY20 (Prov.). Further, the price of steel has seen a lot of volatility over the last three years. The costs of raw materials and finished goods are volatile in nature and hence, profitability of the company is susceptible to fluctuation in the prices of its raw material prices and/or its finished goods.

- **Substantial investment in group companies**

The company has made substantial investments of Rs.40.43 crore as on March 31, 2020 (FY19: 40.32, FY18: 40.32) in its various group companies. These investments comprise ~45% of the net worth of the company as on March 31, 2020 (Prov.). However, excluding the said investments from the tangible net worth of VIL, the adjusted overall gearing continues to remain comfortable at 0.64x as on March 31, 2020.

- **High competition and cyclicality in the steel industry**



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The Vandana group operates in Chhattisgarh which is well known for steel & ancillary segment. The company faces stiff competition from both established players in the region as well as from the unorganised sector players due to low level of product differentiation. Also, the steel industry is cyclical in nature and witnessed prolonged periods where it faced a downturn due to excess capacity leading to a downturn in the prices. But the current outlook for the steel industry appears to be good with robust demand in the domestic market.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The liquidity position of the company is expected to remain adequate in the near term on the back of its nil long term debt repayment in FY21 & in FY22 and adequate expected cash accrual. Further, the average working capital utilisation of the company also remained moderate at ~89% during the past 12 months ended in April, 2020 indicating a moderate liquidity cushion.

About the Company

Vandana Ispat Limited (VIL) is part of the Vandana group, founded by Mr. Subhash Agarwal, a first generation entrepreneur in 1984. VIL is engaged in manufacturing of M.S beams, channels, angles among other structural products with its manufacturing facility located at Raipur, Chhattisgarh.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	339.2	260.9
EBITDA	6.21	6.99
PAT	1.17	2.10
Total Debt	40.27	33.94
Tangible Net worth	91.16	93.26
EBITDA Margin (%)	1.83	2.68
PAT Margin (%)	0.34	0.80
Overall Gearing Ratio (x)	0.44	0.36



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**As per Infomerics' Standard*

Status of non-cooperation with previous CRA:

Brickwork Ratings has moved the rating into "Issuer Not Cooperating" category due to non-submission of information as per Press Release dated July 06, 2020.

CRISIL has moved the rating into "Issuer Not Cooperating" category due to non-submission of information as per Press Release dated April 22, 2020.

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	40.00	IVR BBB-/ Stable Outlook	IVR BBB/ Stable Outlook (April 09,2019)	-	-
2.	LC/BG	Short Term	2.48	IVR A3	IVR A3+ (April 09,2019)	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually



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widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Cash Credit	-	-	-	40.00	IVR BBB- / Stable
Short Term Bank Facilities – LC/BG	-	-	-	2.68	IVR A3